

REPORT OF THE TREASURER, RURAL TELEPHONE BANK

BANK BOARD MEETING, November 3, 2005

I. Highlights

Highlights of the Rural Telephone Bank's financial operations for the fiscal years ended September 30, 2005 and 2004, and cumulatively from inception through September 30, 2005, are as follows:

<i>(Amounts in Millions)</i>	September 30, 2005	September 30, 2004
<u>Interest Rates on Loan</u>		
Cumulative weighted average on outstanding loans	6.44%	6.45%
<u>Weighted Average Interest Rate Earned on Cash Balances</u>		
Liquidating Cash Held at the U.S. Treasury - year to date	4.74%	5.17%
<u>Weighted Average Interest Rate on Financing From the U.S. Treasury</u>		
Current Year - Financing Account	5.74%	6.16%
Cumulative-Liquidating with 2% return on Class A Stock	2.00%	2.00%
<u>Advances on Loan Commitments</u>		
Amount (includes B stock purchases)	\$ 97	\$ 68
Net cumulative through September 30, 2005	\$ 3,104	\$ 3,014
<u>Unadvanced Loan Commitments</u>		
Amount at September 30, 2005 ^{1/}	\$ 1,257	\$ 1,267
<u>Revenue</u>		
Total Revenue for the year	\$ 124	\$ 124
Total Expenses for the year	\$ 28	\$ 21
Net Revenue for the Year	\$ 96	\$ 103
Less		
Current year dividend on Class A Stock	\$ 8	\$ 8
C Stock dividend payable ^{2/}	50	49
Reestimates/Operating Expenses	3	4
Patronage Capital for the Year	\$ 35	\$ 42

^{1/} Decrease of \$10 million is the net result of a \$180 million increase in loan commitments, minus \$97 million in loan advances and \$83 million in loan cancellations. Liquidating totals \$31 million of the \$1,257.

^{2/} Estimated for financial statement purposes.

Treasurer's Report – November 3, 2005

Outstanding Loan Receivable, Gross:

(Portfolio)

(Dollars in thousands)

	Loans Receivable Fiscal Year Ended 09/30/04	Yearly Activity 09/30/05	Loans Receivable as of 09/30/05
Liquidating	\$ 423,504	\$ (149,442) ^{1/}	\$ 274,062
Financing	\$ 363,676	\$ (8,168) ^{2/}	\$ 355,508
	\$ 787,180	\$ (157,610)	\$ 629,570

^{1/} Yearly activity of (\$149,442) is a result of new loan advances of \$1,154 less repayments/prepayments of \$150,596.

^{2/} Yearly activity of (\$8,168) is a result of new loan advances of \$95,979 less repayments/prepayments of \$104,147.

Investments of Others:

(Dollars in thousands)

Stock Balances		
	Fiscal Year Ended 09/30/04	Stock Balances as of 09/30/05
B Stock	\$ 521,622	\$ 480,824
C Stock	\$ 821,487	\$ 909,237
Conversion Activity		
	Quarterly Activity Fourth Quarter	Fiscal Year Ended 09/30/05
Partial Conversions - B to C Stock	\$ 440	\$ 29,468
Paid-In-Full Conversions - B to C Stock	\$ 54,027	\$ 58,274
Additional Paid In Capital	\$ 0	\$ 8

Treasurer's Report – November 3, 2005

II. Financial Statement and Statistical Reports

The following statements of the Rural Telephone Bank are attached:

1. Comparative Balance Sheet as of September 30, 2005 (page 4).
2. Comparative Statement of Net Cost for fiscal year ended September 30, 2005 (page 5).
3. Comparative Statement of Changes in Net Position for fiscal year ended September 30, 2005 (page 6).
4. Comparative Statement of Budgetary Resources for fiscal year ended September 30, 2005 (page 7).
5. Comparative Statement of Financing for fiscal year ended September 30, 2005 (page 8).
6. Footnotes to the Statements (pages 9-27).
7. Loan Statistics as of September 30, 2005 (page 28).
8. Cumulative Loan Commitments and Advances Graph (page 29).
9. Listing of U.S. Treasury Borrowings by Interest Rate and Maturity Date as of September 30, 2005 (page 30).
10. Key Data – Fiscal Years 1995-2005 (page 31)

**U.S. Department of Agriculture
Rural Telephone Bank
BALANCE SHEET
As of September 30, 2005 and 2004
(in dollars)**

	<u>FY 2005</u>	<u>FY2004</u>
ASSETS		
Assets for Use by Entity:		
Federal		
Fund Balance with Treasury (Note 2)	\$ 1,576,011,359	\$ 1,410,526,048
Interest Receivable (Note 3)	6,050,555	5,800,817
Non-Federal		
Loans Receivable, Net (Note 4)	637,550,680	788,206,343
Total Assets	\$ <u>2,219,612,594</u>	\$ <u>2,204,533,208</u>
LIABILITIES		
Liabilities Covered by Budgetary Resources:		
Federal		
Interest Payable	\$ 494,296	\$ 10,954,015
Accounts Payable	13,744,115	343,114,808
Debt (Note 5)	335,419,610	
Non-Federal		
Other Liabilities (Note 6)	50,267,844	48,779,630
Total Liabilities	\$ <u>399,925,865</u>	\$ <u>402,848,453</u>
COMMITMENTS AND CONTINGENCIES (Note 7)		
NET POSITION		
Unexpended Appropriations (Note 8)	<u>15,939,186</u>	<u>17,959,620</u>
Capital Stock (Note 9)		
Federal		
Equity of the U.S. Government		
Capital Stock Class A	368,861,761	388,275,537
Subsidy Re-estimates	(252,336)	(72,455)
Total Equity of the U.S. Government	<u>368,609,425</u>	<u>388,203,082</u>
Non-Federal		
Investment of Others		
Capital Stock Class B	480,823,650	521,621,555
Capital Stock Class C	909,237,000	821,487,000
Restricted Capital	10,000,000	10,000,000
Patronage Capital Earned	35,077,468	42,413,498
Total Investment of Others	<u>1,435,138,118</u>	<u>1,395,522,053</u>
Cumulative Results of Operations	<u>1,803,747,543</u>	<u>1,783,725,135</u>
Total Net Position	\$ <u>1,819,686,729</u>	\$ <u>1,801,684,755</u>
Total Liabilities and Net Position	\$ <u>2,219,612,594</u>	\$ <u>2,204,533,208</u>

The accompanying notes are an integral part of these statements.

U.S. Department of Agriculture
Rural Telephone Bank
STATEMENT OF NET COST
For the Fiscal Years Ended September 30, 2005 and 2004
(in dollars)

	<u>FY 2005</u>	<u>FY 2004</u>
Program Costs		
Intragovernmental Gross Costs		
Borrowing Interest Expense	\$ 27,101,722	\$ 24,263,120
Operating Expense	3,126,784	3,152,291
Total Intragovernmental Gross Costs	<u>30,228,506</u>	<u>27,415,411</u>
Less: Intragovernmental Earned Revenue (Note 10)	75,477,990	72,828,481
Intragovernmental Net Costs	<u>(45,249,484)</u>	<u>(45,413,070)</u>
Gross Costs with the Public	(2,593,665)	(6,854,510)
Less: Earned Revenues from the Public (Note 10)	48,390,086	50,995,392
Net Costs with the Public	<u>(50,983,751)</u>	<u>(57,849,902)</u>
Net Cost of Operations	<u>\$ (96,233,235)</u>	<u>\$ (103,262,972)</u>

The accompanying notes are an integral part of these statements.

U.S. Department of Agriculture
Rural Telephone Bank
STATEMENT OF CHANGES IN NET POSITION
For the Fiscal Years Ended September 30, 2005 and 2004
(in dollars)

	FY 2005		FY 2004	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balance	\$ 1,783,725,135	\$ 17,959,620	\$ 1,753,690,352	\$ 21,282,263
Budgetary Financing Sources:				
Appropriations Received		4,910,122		3,508,716
Appropriations Transferred In/Out				
Other Adjustments		(1,041,555)		(2,185,796)
Appropriations Used	5,889,001	(5,889,001)	4,645,563	(4,645,563)
Transfers In/Out w/o Reimbursement	(9,191,294)		(3,339,410)	
Other Budgetary Financing Sources:				
Redemption of Class A Stock	(19,413,776)		(20,435,554)	
A Stock Dividends	(7,765,510)		(8,174,222)	
C Stock Dividends	(50,267,844)		(48,779,630)	
Investment of Others	4,538,596		2,855,064	
Total Budgetary Financing Sources	(76,210,827)	(2,020,434)	(73,228,189)	(3,322,643)
Net Costs of Operations	96,233,235		103,262,972	
Ending Balances	1,803,747,543	15,939,186	1,783,725,135	17,959,620

The accompanying notes are an integral part of these statements.

**U.S. Department of Agriculture
Rural Telephone Bank
STATEMENT OF BUDGETARY RESOURCES
For the Fiscal Years Ended September 30, 2005 and 2004
(in dollars)**

	FY 2005		FY 2004	
	Budgetary	NonBudgetary Credit Program Financing Accounts	Budgetary	NonBudgetary Credit Program Financing Accounts
Budgetary Resources				
Appropriations Received (Note 14)	4,910,122		3,508,716	
Borrowing Authority (Note 12/13)		235,144,814		216,476,539
Net Transfers	(19,413,776)		(20,435,554)	
Unobligated Balances (Note 15)				
Beginning of Period (Brought Forward)	1,290,880,723	30,422,358	1,202,530,590	1,626,149
Spending Authority from Offsetting Collections Earned				
Collected	244,014,692	140,999,727	202,823,634	61,452,350
Receivables from Federal Sources	71,358	178,378	(50,656,712)	
Change in Unfilled Customer Orders Without Advance from Federal Sources		(18,925)		(2,247,273)
Recoveries of Prior Yr Obligations Permanently Not Available	15,342,347 (8,807,065)	68,848,809 (179,640,930)	15,739,704 (10,360,018)	76,361,157 (110,543,040)
Total Budgetary Resources	1,526,998,401	295,934,231	1,343,150,360	243,125,882
Status of Budgetary Resources:				
Obligations Incurred (Note 11)				
Direct	55,271,006	214,004,658	52,269,637	212,703,525
Unobligated Balances:				
Apportioned		18,555,622		
Unobligated Balances Not Yet Available	1,471,727,395	63,373,951	1,290,880,723	30,422,358
Total Status of Budgetary Resources	1,526,998,401	295,934,231	1,343,150,360	243,125,882
Relationship of Obligations to Outlays				
Obligated Balance, Net - Beginning of Period	107,247,525	1,205,455,814	53,498,911	1,169,348,641
Obligation Incurred	55,271,006	214,004,658	52,269,637	212,703,525
Less:				
Recoveries of Prior Year Obligations	15,342,347	68,848,809	15,739,704	76,361,157
Changes from Federal Sources	71,358	159,453	(50,656,712)	(2,247,273)
Obligated Balance, Net - End of Period				
Accounts Receivable	(5,872,177)	(178,378)	(5,800,819)	
Undelivered Orders	46,990,083	1,217,322,177	64,268,714	1,205,445,814
Accounts Payable	50,267,844	494,296	48,779,630	
Total, Obligated Balances, Net - End of Period	91,385,750	1,217,638,095	107,247,525	1,205,445,814
Disbursements	55,719,076	132,804,114	33,438,031	102,492,467
Collections and Advances Received	(244,014,692)	(140,999,727)	(202,823,634)	(61,452,350)
Outlays	(188,295,616)	(8,195,613)	(169,385,603)	41,040,117
Less: Offsetting Receipts	10,218,124		11,155,042	
Net Outlays	(198,513,740)	(8,195,613)	(180,540,645)	(41,040,117)

The accompanying notes are an integral part of these statements.

U.S. Department of Agriculture
Rural Telephone Bank
STATEMENT OF FINANCING
For the Fiscal Years Ended September 30, 2005 and 2004
(in dollars)

	<u>FY 2005</u>	<u>FY 2004</u>
Resources Used To Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	\$269,275,664	\$264,973,162
Less: Spending Authority From Offsetting Collections and Recoveries	<u>469,436,386</u>	<u>303,472,860</u>
Obligations Net of Offsetting Collections and Recoveries	(200,160,722)	(38,499,698)
Less: Offsetting Receipts	<u>10,218,124</u>	<u>11,155,042</u>
Total Resources Used To Finance Activities	<u>(210,378,846)</u>	<u>(49,654,740)</u>
Resources Used To Finance Items Not Part Of The Net Costs Of Operations:		
Change in Budgetary Resources Obligated For Goods, Services, and Benefits Ordered But Not Yet Provided	(5,402,267)	18,593,516
Resources That Fund Expenses Recognized in Prior Periods	1,700,769	320,953
Budgetary Offsetting Collections and Receipts That Do Affect Net Costs of Operations		
Credit Program Collections Which Increase Liabilities for Loan Guarantees or Allowance for Subsidy	(385,264,155)	(213,619,273)
Other	(10,218,124)	(11,155,042)
Resources That Finance the Acquisition of Assets	184,616,699	151,880,497
Total Resources Used to Finance Items Not Part of The Net Cost of Operations	<u>(214,567,078)</u>	<u>(53,979,349)</u>
Total Resources Used to Finance the Net Cost of Operations	<u>4,188,232</u>	<u>4,324,609</u>
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Upward/Downward Reestimates of Credit Subsidy Expense (Note 16)	(7,310,645)	(8,220,231)
Other	(93,196,304)	(99,127,798)
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	(100,506,949)	(107,348,029)
Components Not Requiring or Generating Resources		
Depreciation and Amortization		
Other	<u>85,482</u>	<u>(239,552)</u>
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	<u>(100,421,467)</u>	<u>(107,587,581)</u>
Net Costs of Operations	<u>(\$96,233,235)</u>	<u>(\$103,262,972)</u>

The accompanying notes are an integral part of these statements.

RURAL TELEPHONE BANK

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Rural Telephone Bank (RTB), established in May 1971, provides a supplemental source of financing under the rural utilities telephone loan program. As part of the United States Department of Agriculture (USDA), Rural Development assists rural electric and telephone organizations in obtaining the financing required to provide electric and telephone service in rural areas. RTB lends principally to rural telephone organizations.

RTB is a government corporation that functions as an agency of USDA, subject to the supervision and direction of the Secretary of Agriculture. As provided by law, the Administrator of the rural utilities program area serves as the Governor of RTB. In this capacity, the Governor may exercise and perform all of RTB's functions, powers, and duties, except for matters specifically reserved for its Board of Directors. As discussed below, upon retirement of the Class A stock held by the U.S. Government, the RTB would no longer operate as an integral agency of the Government.

Adverse changes in the telephone industries could have a direct and material impact on the financial capacity of RTB borrowers to provide for the repayment of loans.

B. Basis of Presentation

The accompanying financial statements have been prepared to report the financial position, net costs, and changes in net position of RTB as required by the Government Management Reform Act of 1994, and in conformity with generally accepted accounting principles (GAAP). GAAP for Federal financial reporting entities recognize the Federal Accounting Standards Advisory Board (FASAB) as the standards-setting body designated to establish these principles for these entities. The financial statements have also been prepared from the books and records of RTB in accordance with the form and content for entity financial statements specified by the Office of Management and Budget (OMB)

Circular No. A-136, Financial Reporting Requirements, with additional presentation disclosures to encompass RTB's unique business processes.

C. Basis of Accounting

RTB's transactions are recorded on the accrual basis of accounting and with respect to certain information regarding budgetary resources and financing, a budgetary accounting basis. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred. Budgetary accounting is also necessary to facilitate compliance with legal constraints and controls over the use of Federal funds. Any significant interfund and intrafund balances and transactions have been eliminated in the consolidation of the pre- and post-credit reform lending programs.

D. Fund Balance with Treasury

RTB maintains all cash accounts with the United States (U.S.) Treasury. It is the policy of RTB not to maintain cash in commercial bank accounts, except in the normal course of processing cash receipts through third-party commercial banking institutions. Fund Balance with Treasury represents appropriated and revolving funds that are available to pay current liabilities and finance authorized loan commitments. RTB earns interest on all cash balances maintained at the U.S. Treasury in accordance with the terms of the 1973 note executed by RTB and U.S. Treasury, Section 505(c) of the Federal Credit Reform Act of 1990 and legislation (Public Law 106-78).

E. Loans Receivable, Net

Loans are accounted for as receivables after funds are disbursed. Loans receivable are carried at the principal amount outstanding, net of an allowance for estimated uncollectible amounts for pre-fiscal year (FY) 1992 loans. For direct loans obligated on or after October 1, 1991, RTB recognizes these assets at the present value of their estimated net cash inflows. The difference between the outstanding principal of the loans and the present value of their net cash inflows is recognized as a subsidy cost allowance (Note 4). All loan receivables are due from non-Federal borrowers and accrue interest daily based on the contractual interest rate.

RTB's allowance is estimated based on delinquency rates, current economic conditions, borrowers' credit histories, borrowers' outstanding balances, and an analysis of each borrower's financial condition.

Due to accelerated reporting requirements, a reestimate approximator method was implemented in FY 2003. Actual budgetary reestimates, as of September 30, 2005, will be completed during FY 2006.

The projected cost of direct loan defaults (for loans obligated prior to October 1, 1991) will not necessarily reflect RTB's future appropriation requests. To the extent that fund revenues are not sufficient to fund future costs, financing will have to be obtained from future appropriations, or other Congressionally-approved sources.

F. Liabilities

Liabilities are recognized for amounts of probable future outflows or other sacrifices of resources as a result of past transactions or events. Since RTB is a component of the U.S. Government, a sovereign entity, its liabilities cannot be liquidated without legislation that provides resources to do so. Payments of all liabilities other than contracts can be abrogated by the sovereign entity.

Liabilities Covered by Budgetary Resources are those liabilities funded by available budgetary resources including: (1) new budget authority, (2) spending authority from offsetting collections, (3) recoveries of unexpired budget authority, (4) unobligated balances of budgetary resources at the beginning of the year, and (5) permanent indefinite appropriation or borrowing authority. All of RTB's liabilities are covered by budgetary resources.

- **Interest Payable**

Interest payable consists solely of amounts owed to the U.S. Treasury on borrowed funds.

- **Accounts Payable**

Accounts payable consist solely of amounts payable to the U.S. Treasury based on credit reform subsidy reestimates.

- **Debt**

As required under Credit Reform legislation, a note was executed by RTB with the U.S. Treasury that provides funds for direct loans approved after September 30, 1991 (Post-1991). The interest rate charged to RTB is the average annual U.S. Treasury rate, as provided by OMB. For loans approved prior to October 1, 1991 (Pre-1992), U.S. Treasury funding is provided, when needed, in accordance with the terms of a note executed by

RTB and U.S. Treasury in July 1973. RTB has not borrowed against the note for several years since the pre-1992 fund balance is sufficient to advance new loans.

G. Stock Conversion

In accordance with its authorizing legislation and amendments, RTB will be converted to independent status at such time when 51 percent of the Class A stock issued to the U.S. Government (and outstanding at any time since September 30, 1985) has been fully redeemed and retired. When such conversion occurs, RTB will no longer be an agency of the USDA and the President will cease to appoint Board members. However, after the conversion, Congress may still continue its oversight responsibilities for RTB's operations.

H. Operations

The Rural Electrification (RE) Act of 1936, as amended, and RTB's enabling legislation, authorize RTB to partially or jointly use the facilities and services of employees of Rural Development, or of any other agency of the USDA, without cost. Under the Federal Credit Reform Act, \$3,126,784 of appropriated funds provided to RTB to cover administrative costs was transferred to Rural Development for FY 2005. This amount represents the additional cost to Rural Development for managing RTB. In this regard, RTB's operations are conducted by Rural Development administrative and program employees who have similar responsibilities under Rural Development's rural telephone loan program.

I. Intra-Governmental Relationships and Transactions

In the course of its operations, RTB has relationships and financial transactions with other Federal agencies. The more prominent of these are with Rural Development and the U.S. Treasury. Rural Development determines the annual cost allocations associated with the administration of RTB by Rural Development employees, and the U.S. Treasury receives the collections of proceeds from direct loans issued on behalf of RTB.

J. Future Considerations

Proposed Dissolution of the Rural Telephone Bank

The President's Fiscal Year 2006 Budget proposes to establish the process and terms to implement dissolution of the RTB due to insufficient demand for the Bank's loans and the availability of adequate financing from other sources. Stockholders of the RTB will receive a cash payout for their stock at par value. In August 2005, the RTB Board unanimously approved resolutions describing the process and terms to implement the liquidation and dissolution of the RTB, subject to there being no legal restriction on redeeming Government-owned

Class A Stock. Additional information on stock owned by borrowers and third parties is reported in **Note 9**.

NOTE 2: FUND BALANCE WITH TREASURY

Amounts presented in dollars.

	FY 2005		FY 2004
Fund Balances:			
Revolving Funds	\$1,560,072,173		\$1,392,566,428
Appropriated Funds	15,939,186		17,959,620
Total	\$1,576,011,359		\$1,410,526,048

	FY 2005		FY 2004
Unobligated Balance			
Unavailable, end of year *	\$1,515,989,414		\$1,333,482,500
Unavailable, restricted	133,647		299,934
Available	0		77,101
Obligated Balance			
Not Yet Disbursed	59,888,298		76,666,513
Total	\$1,576,011,359		\$1,410,526,048

*Amount becomes available through the Standard Form (SF) 132 process.

NOTE 3: INTEREST RECEIVABLE

Amounts presented in dollars.

	FY 2005		FY 2004
Intragovernmental			
Due from U.S. Treasury	\$ 6,050,555		\$ 5,800,817

In FY 2005 and FY 2004, U.S. Treasury interest was based on the average fund balance on deposit with the U.S. Treasury as of August 31, 2005 and August 31, 2004, respectively, and received in current fiscal year business. A receivable was calculated for the months of September and included in this year's and last year's balance sheet, respectively, and will be received in FY 2006 and FY 2005, respectively.

NOTE 4: LOANS RECEIVABLE, NET

Purpose

The Rural Telephone Bank (RTB) was created by Public Law 92-12 on May 7, 1971. The RTB was designed to assure rural telephone systems access to private sources of capital. It did this by establishing a supplemental credit mechanism to which borrower systems may turn for all or part of their future capital requirements. The RTB is owned by the U.S. Government, its borrowers, former borrowers, and other related organizations authorized to invest. The RTB operates on a cooperative basis and earnings, in excess of the annual return of 2 percent required on the Government's investment, are returned to the non-Government owners as patronage refunds.

RTB makes telecommunications loans to public bodies, cooperative, nonprofit, limited association or mutual associations. RTB loans are made concurrently with Rural Development cost-of-money loans to finance the improvement, expansion, construction, and acquisition of systems or facilities that improve telephone service in rural areas. However, RTB does not finance station apparatus owned by the borrower, headquarters' facilities, and vehicles not used primarily in construction.

Eligibility

To be eligible, a borrower must be incorporated and must provide or propose to provide the basic local exchange telephone service needs of rural areas. A borrower must demonstrate that the average number of proposed subscribers per mile of line in the service area of the borrower is less than or equal to 15, or the borrower has a projected Times Interest Earned Ratio (borrowers net income after taxes plus interest expense, all divided by interest expense) of at least 1.0 but not greater than 5.0. Additionally, the borrower must participate in an approved telecommunications modernization plan for the state.

Repayment Period and Interest Rates

Loans must be repaid within a period that approximates the expected useful life of the facilities to be financed, not to exceed 35 years. Generally, interest is payable each month as it accrues. Principal payments on each note generally are scheduled to begin 2 years after the date of the note. After this deferral period, interest and principal payments on all funds advanced during this 2-year period are scheduled in equal monthly installments. RTB loans will bear interest at a rate equal to the cost of funds to RTB. However, the rate will not be less than 5 percent.

Servicing Options

RTB may extend the time of payment of principal or interest on a loan. This extension may be up to 5 years after such payment is due. Payment may be deferred as long as necessary in disaster situations so long as the final maturity date is not later than 40 years after the date of the loan.

Accounting Policy

Direct loan obligations made prior to FY 1992 are reported on a net realizable value basis. Direct loan obligations made after FY 1991 are governed by the Federal Credit Reform Act. The Act provides that the present value of the subsidy costs (i.e., interest rate differentials, interest subsidies, delinquencies and defaults, fee offsets and other cash flows) associated with direct loans be recognized as a cost in the year the loan is made. The net present value of loans receivable at any point in time is the amount of the gross loan receivable less the present value of the subsidy at that time.

Economic Factors and Outlook Affecting Subsidy Reestimates

The RTB subsidy rate is supported by three components to include interest rate, defaults, and prepayments. The interest rate component is the only sensitive component and there have been no defaults in this program.

The reestimate amounts have been minimal with the FY 2004 actual budgetary reestimates resulting in a \$8 million downward reestimate (net) decreasing program funding requested at time of formulation. With the borrower rate being approximated by the U.S. Treasury rate at the time of advancing funds, interest subsidy rate increases have been significant. Currently, there are no foreseeable events that may require significant additional subsidy.

Direct Loans Obligated Prior to FY 1992
(Allowance for Loss Method):

Amounts presented in dollars.

	FY 2005		FY 2004
Loans Receivable, Gross	\$ 274,062,427		\$ 423,503,887
Interest Receivable	\$ 586,124		\$ 1,008,091
Allowance for Loan Losses	\$ (4,006,818)		\$ (3,921,333)
Value of Assets Related to Direct Loans	\$ 270,641,733		\$ 420,590,645

Direct Loans Obligated After FY 1991
(Present Value Method)

Amounts presented in dollars.

	FY 2005		FY 2004
Loans Receivable, Gross	\$ 355,507,722		\$ 363,676,369
Interest Receivable	\$ 577,802		\$ 245,037
Allowance for Subsidy Cost (Present Value)	\$ 10,823,423		\$ 3,694,292
Value of Assets Related to Direct Loans	\$ 366,908,947		\$ 367,615,698
Total Portfolio Value of Assets Related To Direct Loans	\$ 637,550,680		\$ 788,206,343

Total Amount of Direct Loans Disbursed:

Amounts presented in dollars.

	FY 2005		FY 2004
Direct Loans Obligated Prior to FY 1992	\$ 1,185,713		\$ 854,337
Direct Loans Obligated After FY 1991	\$ 91,416,689		\$ 63,881,123

Subsidy Expense for Direct Loans by Program and Component:

Amounts presented in dollars.

Subsidy Expense for New Direct Loans Disbursed

	FY 2005		FY 2004
Interest Differential	\$ (476,439)		\$ 970,454
Defaults	\$ 19,661		\$ 19,407
Other	\$ (56,798)		\$ 153,020
Total	\$ (513,576)		\$ 1,142,881

Reestimates

	FY 2005		FY 2004
Interest Rate Reestimates	\$ (611,719)		\$ (10,884,876)
Technical Reestimates	\$ (5,181,255)		\$ 2,677,319
Total	\$ (5,792,974)		\$ (8,207,557)
Total Direct Loan Subsidy Expense:	\$ (6,306,550)		\$ (7,064,676)

Budget Subsidy Rates for Direct Loans by Program and Component

	FY 2005		FY 2004
Interest Differential	(1.43)%		(4.29)%
Defaults	.02 %		0.02%
Other Collections	(.42)%		(0.05)%
Total	(1.83)%		(4.32)%

Subsidy Rates for Direct Loans by Program and Component:

Schedule for Reconciling Subsidy Cost Allowance Balances:
(Post- FY 1991 Direct Loans)

Amounts presented in dollars.

Beginning Balances, Changes, and Ending Balances	FY 2005	FY 2004
Beginning balance of the subsidy cost allowance:	\$ (3,694,292)	\$ 2,264,455
Add: subsidy expense for direct loans disbursed during the reporting years by component:		
(a) Interest rate differential costs	(476,439)	970,454
(b) Default costs (net of recoveries)	19,661	19,407
(c) Fees and other collections	(56,798)	153,020
Total of the above subsidy expense and components	\$ (513,576)	\$ 1,142,881
Adjustment:		
(a) Subsidy allowance amortization	(822,581)	1,105,929
Ending balance of the subsidy cost allowance before reestimates	\$ (5,030,449)	\$ 4,513,265
Add or subtract subsidy reestimates by component:		
(a) Interest rate reestimate	(611,719)	(10,884,876)
(b) Technical/default reestimate	(5,181,255)	2,677,319
Total of the above reestimate components	\$ (5,792,974)	\$ (8,207,557)
Ending balance of the subsidy cost allowance	\$(10,823,423)	\$ (3,694,292)
	FY 2005	FY 2004
Administrative Expense	\$ 3,126,784	\$ 3,152,291

NOTE 5: DEBT

Amounts presented in dollars.

	2005			
	Beginning Balance		Net Borrowings	Ending Balance
Federal Debt				
Interest Bearing:				
Debt to the U.S. Treasury	\$ 343,114,808		(7,695,198)	\$ 335,419,610

	2004			
	Beginning Balance		Net Borrowings	Ending Balance
Federal Debt				
Interest Bearing:				
Debt to the U.S. Treasury	\$ 300,996,852		42,117,956	\$ 343,114,808

Legislation limits outstanding borrowings from the U.S. Treasury to an amount, which shall not exceed twenty times RTB's equity. As of September 30, 2005 and 2004, RTB's maximum borrowing authority approximated \$36 billion. All Federal debt is covered by budgetary resources.

NOTE 6: OTHER LIABILITIES

Dividends are declared on Class C stock to non-federal recipients with approval by the RTB Board. For FY 2005, the final stock dividend percentage requires RTB Board consideration and is estimated at the maximum allowed for financial statement purposes. The C stock payable for September 30, 2004, was \$48.8 million and for September 30, 2005, was estimated at \$50.3 million.

Dividends are paid in December of the same calendar year. This liability is covered by budgetary resources.

NOTE 7: COMMITMENTS AND CONTINGENCIES

The RTB has in the course of its loan making activities, unliquidated loan obligations that, in the absence of contractual violations or cancellations, will require disbursements. Unliquidated loan obligations at September 30, 2005 and 2004, total approximately \$1,266 million and \$1,270 million, respectively.

As of September 30, 2005 and 2004, there were no obligations due to canceled appropriations for which there is a contractual commitment for payment.

NOTE 8: UNEXPENDED APPROPRIATION

Amounts presented in dollars.

	FY 2005		FY 2004
Unexpended appropriations			
Unobligated	\$ 133,647		\$ 377,035
Undelivered orders	15,805,539		17,582,585
Total Unexpended Appropriations	\$ 15,939,186		\$ 17,959,620

Unexpended appropriations include the undelivered orders and unobligated balances of the program accounts, which receive Congressional appropriations through the budgetary process.

As appropriated funds incur obligations, the obligated amount is recorded as an undelivered order. Undelivered orders are reduced by either an expenditure or an obligation cancellation. Appropriated funds, which are not obligated, are treated as unobligated amounts. Unobligated appropriations are returned to the U.S. Treasury when their period of availability expires.

NOTE 9: CAPITAL STOCK

Amounts presented in dollars.

	FY 2005		FY 2004
A summary of the RTB capital stock structure follows:			
CAPITAL STOCK CLASS A (\$1 par value)			
Shares authorized	600,000,000		600,000,000
Shares issued and outstanding	368,861,761		388,275,537
Cash dividends	\$ 7,765,510		\$ 8,174,222
CAPITAL STOCK CLASS B (\$1 par value)			
Shares authorized	Unlimited		Unlimited
Shares issued and outstanding	480,823,650		521,621,555
Stock dividends (distributed 12/04 and 12/03)	42,413,498		62,504,042
CAPITAL STOCK CLASS C (\$1,000 par value)			
Shares authorized	Unlimited		Unlimited
Par Value, shares issued and outstanding	909,237,000		821,487,000
Cash dividends (accrued 09/05 and 09/04)	\$ 50,267,844		\$ 48,779,630

Capital Stock Class A

Public Laws 92-12 and 97-98 authorized Congress, in FY's 1971 through 1991, to appropriate no more than \$30 million per year for the purchase of RTB Class A stock. The law provides that Congress annually appropriate funds until such purchases approximate \$600 million. As of September 30, 2005, RTB Class A stock appropriations amounted to approximately \$592.1 million, the total funding Rural Development will receive from Congress. Beginning in 1996, RTB was required to repurchase this stock; however, in accordance with Public Law 106-78, Section 718, the maximum Class A stock that may be retired is 5 percent. According to enabling legislation and amendments, the Bank will be converted to independent status when 51 percent of the Class A stock issued to the United States has been fully redeemed and retired.

On September 30, 2005 and 2004, in accordance with Bank Board resolution 2005-6 and 2004-1, the tenth and ninth redemption's of Class A stock, in the amounts of \$19.4 million and \$20.4 million occurred, leaving balances of \$368.9 million and \$388.3 million outstanding, respectively.

Class A stock has a guaranteed annual dividend of 2 percent of the total funds received. Although Rural Development owns all Class A stock on behalf of the U. S. Government, the cash dividends are paid to the U.S. Treasury.

Capital Stock Class B

Class B stock, a voting class of stock, is issued only to borrowers of RTB, in proportion to actual loan advances. RTB requires borrowers to purchase Class B

stock in the amount of 5 percent of advanced loan amounts. RTB may not pay cash dividends on Class B stock. Rather, holders of Class B stock are entitled to patronage refunds (paid in the form of Class B stock dividends) equal to the amount of patronage capital in excess of \$10 million. Patronage refunds are allocated on liquidating account loans, based on the ratio of interest revenue to RTB from each holder to RTB's total interest revenue from all liquidating account Class B stockholders. Stock subscriptions relating to unadvanced loans approximated \$60 million for both September 30, 2005, and 2004, and are not reflected in the accompanying principal financial statements.

Class B stock is nontransferable, except in connection with a transfer of ownership approved by RTB, of all or part of a RTB loan. Class B stock can be redeemed only after all shares of Class A stock, a nonvoting class of stock owned by the U.S. Government, have been redeemed and retired. A borrower may exchange Class B stock for Class C stock: 1) upon retiring all debt with RTB; or 2) effective November 9, 1999, prior to retiring all debt on a proportionate basis equal to the percentage of each note repaid. As of September 30, 2005, and 2004, B stock exchanges of \$269.3 million and \$239.9 million respectively, under the latter method have occurred.

Capital Stock Class C

Class C stock, a voting class of stock, is issued only to RTB borrowers, or to corporations and public entities eligible to borrow from RTB under Section 408 of the RE Act as amended, or by organizations controlled by such borrowers, corporations, and public entities. RTB may pay cash dividends on Class C stock.

Restricted Capital

The Omnibus Budget Reconciliation Act of 1987 required the RTB to establish a contingency reserve or interest rate fluctuations. As a result, the RTB Board of Directors amended the bylaws of RTB regarding the allocation of patronage capital and established a reserve of \$10 million. Any amounts in the reserve for interest rate fluctuations, classified as Restricted Capital on the Balance Sheet, in excess of \$10 million will be allocated as Class B stock dividends to those borrowers holding Class B stock during the fiscal year the amounts were earned. At September 30, 2005 and 2004, Restricted Capital was \$10 million.

Patronage Capital Earned

Patronage Capital Earned consists of all revenues of the RTB for any fiscal year in excess of the amount thereof necessary to:

- Pay expenses of the RTB, including without limitation, payments in lieu of property taxes.
- Pay interest on telephone debentures accruing during the fiscal year.
- Provide reasonable allowances for depreciation, obsolescence, and losses on loans and interest receivable.

- Pay to the holders of Class A stock an amount equal to 2 percent per annum of the capital furnished to the RTB for such stock.
- Pay to the holders of Class C stock dividends at the rate determined by the Board, provided the following criteria is met:
 - No dividends shall be declared on Class C stock until arrearages, if any, on payments to holders of the cumulative Class A stock have been paid.
 - Until all Class A stock has been retired, the Board shall not declare any dividends on Class C stock at an annual rate in excess of the then current average rate payable on the RTB's telephone debentures.

Cumulative Results of Operations

Cumulative Results of Operations are allocated to the various components of Net Position based on the requirements of the RE Act. Specifically, current year results of operations are recorded as Patronage Capital Earned and redistributed to the Class B stock and Restricted Capital accounts. Cash dividends are paid out of Cumulative Results of Operations.

NOTE 10: EARNED REVENUES

Amounts presented in dollars.

	FY 2005		FY 2004
Intragovernmental Earned Revenue			
Interest Revenue from U.S. Treasury	\$ 75,477,990		\$ 72,828,481
Earned Revenue from the Public			
Interest and Penalties Revenue	48,390,086		50,995,392
Total Earned Revenues	\$ 123,868,076		\$ 123,823,873

NOTE 11: APPORTIONMENTS CATEGORIES OF OBLIGATIONS INCURRED

Direct obligations incurred as of September 30, 2005 and 2004, is approximately \$214 million and \$213 million, respectively. For FY 2005, \$182 million was apportioned for direct loans and \$33 million was apportioned for U.S. Treasury interest expense and reestimates; and for FY 2004, \$170 million was apportioned for direct loans and \$43 million was apportioned for U.S. Treasury interest expense and reestimates.

NOTE 12: AVAILABLE BORROWING/CONTRACT AUTHORITY, END OF PERIOD

The amount of Federal borrowing authority available as of September 30, 2005 and 2004, is approximately \$1,287 million and \$1,302 million, respectively.

NOTE 13: TERMS OF BORROWING AUTHORITY USED

Requirements for repayments of borrowings: Borrowings are repaid on SF 1151, Nonexpenditure Transfers, as maturity dates become due. For liquidating accounts, maturity dates are fifty years from the close of the fiscal year the funds were advanced by the U.S. Treasury to the Bank. For financing accounts, maturity is based on the period of time used in the subsidy calculation, not the contractual term of the Agency's loans to borrowers. This period of time used in the subsidy calculation will normally be longer than the contractual term of the agency's loans to borrowers.

Terms of borrowings used: In general, borrowings are for periods of up to fifty years depending upon the cohort. Interest rates on borrowings in the liquidating accounts were assigned on the basis of the U.S. Treasury rate in effect at the time of the borrowing. Interest rates on borrowings in the financing accounts are assigned on the basis of the U.S. Treasury rate in effect at the end of the year of loan disbursements. Since individual loans are typically disbursed over several years, several interest rates may be applicable to an individual loan. A single weighted average interest rate, which is adjusted each year until all the disbursements for the cohort have been made, is maintained. Prepayments can be made on U.S. Treasury borrowings in the liquidating and financing accounts without penalty.

Financing sources for repayments of borrowings: Included are reestimates and cash flows (i.e. borrower loan principal repayments), appropriations received in liquidating accounts for “cash needs,” residual unobligated balances, where applicable, and other U.S. Treasury borrowings.

NOTE 14: PERMANENT INDEFINITE APPROPRIATIONS

Permanent indefinite appropriations are mainly applicable to liquidating accounts which have the ability to apportion them and for reestimates related to upward adjustments of subsidy in the program accounts. These appropriations become available pursuant to standing provisions of law without further action by Congress after transmittal of the Budget for the year involved. They are treated as permanent the first year they become available, as well as succeeding years. However, they are not stated as specific amounts but are determined by specific variable factors, such as “cash needs” for the liquidating accounts and information about the actual performance of a cohort or estimated changes in future cash flows of the cohort in the program accounts.

The period of availability for these appropriations is as follows: Annual authority is available for obligations only during a specific year and expires at the end of that time; Multi-year authority is available for obligations for a specified period of time in excess of one fiscal year; and No-year authority remains available for obligation for an indefinite period of time, usually until the objectives for which the authority was made available are achieved.

Annual and multi-year authority expires for the purpose of incurring new obligations. However, the authority is available for adjustments to obligations and for disbursements that were incurred or made during the period prior to expiration, but not recorded. Unless specifically authorized in law, the period that the expired authority is available for adjustments to obligations or for disbursements is five fiscal years (beginning with the first expired year). At the end of the fifth expired year, the authority is “canceled.” Therefore, the authority is not available for any purpose.

NOTE 15: LEGAL ARRANGEMENTS AFFECTING USE OF UNOBLIGATED BALANCES

- *Legal arrangements affecting the use of unobligated balances of budget authority:* The availability/use of budgetary resources (i.e., unobligated balances) for obligation and expenditure are limited by purpose, amount, and time.

- *Purpose:* Funds may be obligated and expended only for the purposes authorized in appropriations acts or other laws.
- *Amount:* Obligations and expenditures may not exceed the amounts established in law. Amounts available are classified as either definite (i.e., not to exceed a specified amount) or indefinite (i.e., amount is determined by specified variable factors).
- *Time:* The period of time during which budgetary resources may incur new obligations is different from the period of time during which the budgetary resources may be used to disburse funds.

The time limitations on the use of unobligated balances are the same as those previously discussed in the last two paragraphs of the permanent indefinite appropriations footnote disclosure (**Note 14**).

Any information about legal arrangements affecting the use of unobligated balances of budget authority will be specifically stated by programs and fiscal year in the appropriation language or in the alternative provisions section at the end of the appropriations act.

NOTE 16: EXPLANATION OF DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES (SBR) AND THE BUDGET OF THE UNITED STATES GOVERNMENT

The 2007 Budget of the United States Government, with the Actual Column completed for FY 2005, has not yet been published as of the date of these financial statements. The Budget is currently expected to be published and delivered to Congress in early February 2006. The 2006 Budget of the United States Government, with the Actual Column completed for FY 2004, was published in February 2005 and reconciled to the SBR. No reporting errors or differences were noted.

Reconciliation Between FY 2004 Statement of Budgetary Resources and the President's Budget

Amounts are presented in millions.

Applicable Line From SBR	Amount from SBR	Applicable Line From President's Budget	Amount from President's Budget
Total Budgetary Resources (line 7)	\$1,586	Total budgetary resources available for obligation	\$1,586
Total Status of Budgetary Resources (line 11)	\$1,586	Total new obligations, Unobligated balance expiring/withdrawn, Unobligated balance carried forward, end of year, and Unobligated balance available, end of year	\$1,586
Outlays (line 15)	(\$128)	Outlays	(\$128)

NOTE 17: EXPLANATION OF RELATIONSHIP BETWEEN LIABILITIES NOT COVERED BY BUDGETARY RESOURCES ON THE BALANCE SHEET AND THE CHANGE IN COMPONENTS REQUIRING OR GENERATING RESOURCES IN FUTURE PERIODS ON THE STATEMENT OF FINANCING

Components requiring or generating resources in future periods represent upward/downward reestimates of credit subsidy expense. These subsidy reestimates are recognized expenses even though budgetary resources will be provided in a subsequent period. These credit subsidy reestimates are reported as liabilities covered by budgetary resources since the budget authority to fund the reestimates is permanent and indefinite and no further congressional action is required to provide the resources.

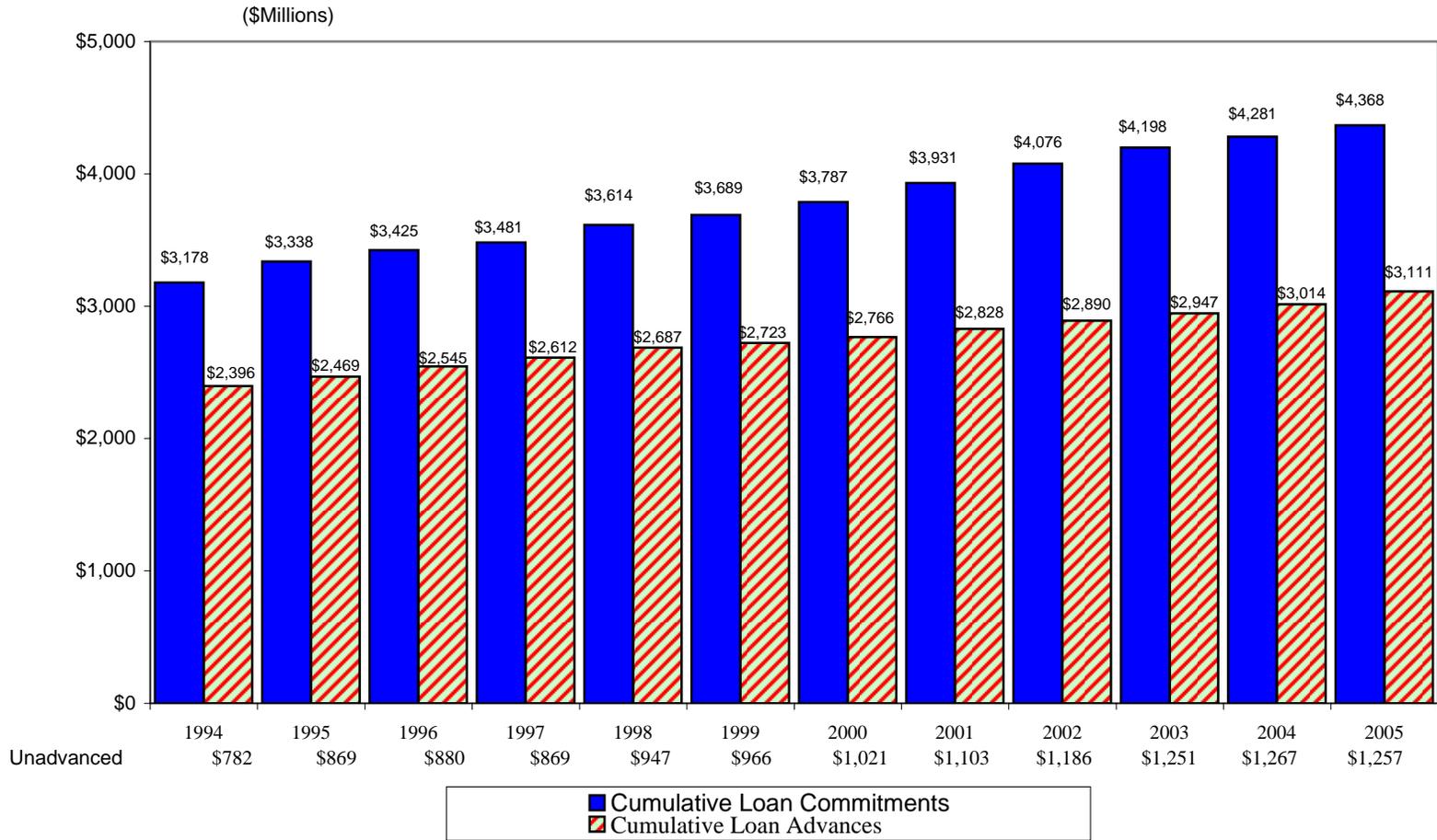
Treasurer's Report
November 3, 2005

RURAL TELEPHONE BANK
LOAN STATISTICS
AS OF SEPTEMBER 30, 2005

	<u>No.</u>	<u>Quarter Ended September 30, 2005 Amount</u>	<u>Inception Through September 30, 2005 Amount (Net)</u>	<u>Inception through September 30, 2004 Amount (Net)</u>
Loan Commitments				
Commercial Companies	27	\$ 104,607,720	\$ 3,014,822,602	\$ 2,965,356,154
Cooperatives	14	64,517,513	1,322,858,819	1,289,877,957
Public Bodies	<u>1</u>	<u>5,874,750</u>	<u>30,656,623</u>	<u>25,922,400</u>
Total Commitments	<u>42</u>	<u>\$ 174,999,983</u>	<u>\$ 4,368,338,044</u>	<u>\$ 4,281,156,511</u>
Loan Advances (Net)				
Construction and other		\$ 91,956,025	\$ 2,961,975,613	\$ 2,870,019,588
B Stock (Net)		<u>4,576,760</u>	<u>148,738,646</u>	<u>144,161,886</u>
Total Advances (Net)		<u>\$ 96,532,785</u>	<u>\$ 3,110,714,259</u>	<u>\$ 3,014,181,474</u>
Unadvanced loan commitments as of September 30, 2005			<u>\$ 1,257,623,785</u>	

Treasurer's Report
November 3, 2005

**RURAL TELEPHONE BANK CUMULATIVE LOAN
COMMITMENTS AND ADVANCES
For Fiscal Years 1994 Through 2005**



Treasurer's Report
November 3, 2005

**FINANCING FUND
BORROWINGS FROM THE U.S. TREASURY ON NOTE DATED NOVEMBER 19, 1991
AS OF SEPTEMBER 30, 2005
(MILLIONS)**

Rate		Total	2021	2022	2023	2025	2026	2027	2028	2029	2030
4.59%	04	29.8					29.8				
4.59%	05	10.4						10.4			
5.10%	00	46.5	46.5								
5.40%	03	4.8				4.8					
5.41%	02	12.8	12.8								
5.68%	98	45.1									45.1
5.70%	97	19.2									19.2
5.88%	99	22.4		22.4							
5.93%	95	45.7									45.7
6.11%	01	20.6			20.6						
6.40%	94	46.0								46.0	
6.80%	92	8.4						8.4			
6.83%	93	7.9							7.9		
6.91%	96	15.8									15.8
Totals		\$335.4	\$59.3	\$22.4	\$20.6	\$4.8	\$29.8	\$18.8	\$7.9	\$46.0	\$125.8
Weighted											
Cost		5.74%	5.17%	5.88%	6.11%	5.40%	4.59%	5.58%	6.83%	6.40%	5.93%

Figures may not foot due to rounding.

Interest rates are calculated as of September 30, 2005.

**Treasurer's Report
November 3, 2005**

**RURAL TELEPHONE BANK
KEY DATA FISCAL YEARS 1995-2005
AS OF SEPTEMBER 30, 2005
(Dollars in Millions)**

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Number of New Obligations	48	44	32	45	28	32	33	31	29	29	42
Amount of New Obligations	175	126.4	99.8	168.1	114	175	175	175	168	170	175
Advances on Loans	73.1	75.5	67	55.1	56.5	43	62	62	56	68	97
Interest Income:											
Loans	108.8	106.4	100.6	96.8	86.2	81	77	68	60	52	45.5
Prepayment Premiums	1.7	2	1.9	1.2	4.8	0.4	1.7	0.7	2.4	n/a	2
Interest Earned on Cash	13.2	9.5	45.5	47	52	57.9	59.6	58	62.5	73	76
Investments	14.7	19.6	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Interest on Re-estimates	n/a	0.4	7.1	(1)	0.5						
Total Income	138.4	137.5	148	145	143	139.3	138.3	127.1	132	124	124
Interest Expense:	56	50	44.9	38	28.5	24.7	20	24	31	24	31
Net Income	82.7	87.9	101.7	105.3	115	113.4	116.6	103	101	100	93
Return on Class A Stock	11.8	11.8	11.5	11.1	10.6	10	9.5	9	9	8	8
Patronage Capital	47.5	46.3	77.6	79.9	90.5	85.4	85.8	72	62	42	35
Borrowings From Treasury 1/	119	100	93	68.3	83.6	78	63.5	61.4	60	74	99
Principal Collected on Loans	84.4	122.3	118.4	120.4	211.2	86.6	147	133	267	84	255

1/ Borrowings from Treasury amount equals current year borrowings net any amount returned in the same fiscal year.